



For Immediate Release

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**Senator Gregg's Senate Floor Remarks on Proposed Economic Stimulus Package
(unofficial transcript)**

First, I congratulate the Speaker, the House Republican Leader, and the President, and especially Treasury Secretary Paulson, for sitting down and trying to reach a bipartisan understanding on how to move forward in what is an economically tentative time.

We know as a nation that we're confronting serious issues, most of them brought on by a boom in the credit market relative to lending in the housing market. As it happens with a classic bubble -- and this is a classic bubble -- when it bursts, when the underlying security and people responsible for paying back the debt cannot do that because money has been lent to people who are not in a position to repay their loans, and the security under that debt has not been able to be maintained to reinstate the value of that debt, when that happens, that not only affects the loans, but it leads to a further contraction in the marketplace.

I have been through this a number of times in my experience. And it always seems to happen the same way. With loans which turned out to be not well-made being called and then followed by the people who lent the money and the capital markets having to contract in order to basically build back up their capital positions, so people who actually have good loans find that they can't get credit extended further and it feeds on itself, and you start to see a slowdown.

That appears to be the type of issue which we may be confronting as a nation. We know that we have a huge sub-prime problem. And we know that may lead to further contraction of credit and we have already seen that. We know, ironically, in this market, a lot of those loans were syndicated out and put in synthetic instruments and actually multiplied as to their impact, so you end up with an inverted pyramid. You have one inverted pyramid. You have one loan that can't be paid back and you have a big pyramid of ways that that loan has been chopped up, moved around and re-sold. You have actually exaggerated its size.

So this is a big issue for us as a nation. The first question is, how do we address it?

First off, we address the Fed. They have stepped up to reduce rates and this should create more liquidity in the market.

Second, what is the fiscal policy, and that's where the President's proposal, working with the Speaker of the House and the Republican Leader has come forward. It is called a stimulus package. The purpose of which, in an economic slowdown, is to pursue economic policy, which is, you stimulate demand during a time of economic slowdown in order to raise the economy.

There is a black letter rule of how to abate the impact of an economic slowdown: you stimulate demand. The question is, will it work? The question is, what's been put on the table, does it make sense, and will it work?

First, remember that the last time that we did this with what is known as tax rebates -- well, they really aren't tax rebates, most of the people who get the tax rebates don't actually pay tax, it is actually just an income transfer -- the last time that we did this we were coming off a period of surplus, the only time of surplus in the last 30 years as a federal government. We'd had three years of surplus, so we actually felt we had cash in the till, so to say, to rebate with, or to pay up.

Now we don't have a surplus. In fact, we have a deficit. It's not a huge deficit, but it's still a deficit. It has been coming down over the past couple of years, which is a good thing. But it does mean any stimulus package that we pursue is a debt. We're going to have to borrow the money to pay it out to people through this tax rebate or through the basic payment process.

Who ends up paying it? Our children will end up paying the cost of the stimulus package. It is going to be, because it is debt, a compounding event. In other words, if the package is represented today to be \$150 billion in costs over its lifetime, which is supposedly confined to this year, that debt that you have to borrow to pay the \$150 billion will have interest on it. After 10 years, that becomes a \$200 billion event, because it won't be paid back over 10 years. And our children and our children's children will have to pay the burden of that.

Basically we're saying to our children, some of whom haven't started earning money yet, we're going to give you a \$200 billion bill for this stimulus package that we're going to put in place over the next six months. If we're going to do something like that, which is fairly significant, we ought to be sure that the stimulus package works, that it does stimulate the economy, that it does retard the forces slowing down the economy and hopefully re-energize the economy.

The proposals which we have on table that came from the House break into two basic approaches.

First is a pure assumption approach where you give people of middle- and low-incomes in this country, I think it is up to \$80,000 of individual income or \$100,000 of joint income, a tax rebate from \$600 to \$1,200. That's just a payment. It is structured in a way that some people who don't pay taxes get to receive them. The theory is that they will

take that money and spend the money and as a result, the economy will see a boost. There are two problems with this theory, however, that we need to address.

First, under the present structure of our Internal Revenue Service, the Congressional Budget Office -- which is a fair arbiter here, they don't have the prejudice in this debate -- has testified that the IRS cannot get these checks out before mid-summer, late June at the earliest.

CBO further testified that the actual economic impact of people spending this money, these rebates, these payments, will probably not occur until the late third quarter, early fourth quarter of this year.

Interestingly enough, CBO Director Orszag has testified that the slow period, the period when you estimate lows, is the next two quarters or next two and a half quarters, and said because of the limitations within the IRS, this rebate probably won't impact those quarters.

That should be a concern to us. The money may not end up coming into people's hands to be able to be used, taxpayers or non-taxpayers hands, to be used in the time frame when it is going to be most needed.

And, in fact, towards the third quarter of this year and into the fourth quarter of this year, it is the testimony of the CBO director that the cuts that the Fed put in place, the three-quarter percent cut, is going to cause the economy to react to that cut in a positive way, hopefully, and that will occur in the third quarter and fourth quarter. You could end up with two events on top of each other that are stimulus at a time that we don't need stimulus and that could be an inflation-driving event. We need to be concerned about that. It is not necessarily going to happen that way, but it is a concern.

The second problem, which this proposal has by just taking a large amount of cash and putting it on the table for people, is that, again, it may not stimulate our economy.

In other words, if somebody goes out with their \$600 rebate and they buy a television made in China, or they buy an i-Pod made in Vietnam, or they buy some other product, a washing machine made somewhere else, if the product isn't actually physically produced here, you are not stimulating our economy, you are stimulating the economy where the product is produced, since most of the dollars will be spent on consumable items or used to pay down credit cards, which has no stimulus effect at all, theoretically. If it is spent on consumable items or apparel made overseas, then the stimulus to the United States is limited to only at the margin. Again, this was testified to by the director of CBO. So these are two concerns with the idea of just infusing money into the package.

The second part of the package says, well, we're going to do a...basically a business incentive event. We're going to allow people to expense, versus depreciate over a number of years, capital purchases, allow bonus depreciation; both of those are probably good tax policy from the standpoint of strengthening our economy over the long run. They make

our economy more efficient. They mean that a small business person will buy a machine which will make their business more efficient. As a result of being more efficient, it makes the American economy stronger. That is good policy, but it will have very little stimulus effect on the underlying economy. So the concern is that the House package may not have the stimulus that it claims to have and may end up being a debt event, which our children will have to repay.

What really concerns me even more, though, is what is being talked about here in the Senate. We're talking about taking the House version and significantly bidding it up here in the Senate, and that really bothers me. I mean, the House package bothers me to begin with; to bid it up in the Senate is a mistake. We're talking about expanding the rebate to everybody now, and that will have no stimulus effect, in my opinion. I mean, to say that high-income individuals or people with joint incomes over \$100,000 should get a \$500 payment...they probably don't need it and if they get it, they're probably going to save it, which is great in the long run, but has no immediate stimulus event.

Secondly, there is a proposal to include an extension of unemployment compensation benefits. Unemployment insurance. Well, that would make sense if we were in a recessionary event, but right now the national unemployment rate is about 5.1% or 5.2%, which is deemed full employment.

Now there are pockets of communities around this country that have higher unemployment, no question about it, but to just put out a nationwide extension of unemployment insurance for an additional year, which is what is being talked about here, or for an additional six months, that basically creates an incentive, in a full employment economy, for people to not be productive and not find jobs. It is intuitively obvious that is a perverse impact on what you want in the area of human reaction, which is to go and find a job, if jobs are available, and jobs in a 5% economy are available.

So any unemployment extension should be tied to a trigger and that trigger should be set at what has been the historical levels of what is deemed to be a recessionary or significant slowdown, which is around 6%, so you don't extend unemployment insurance unless you hit that level of unemployment. And you could make it regional. If one region has 6% unemployment, then you give the extended unemployment insurance, if one region doesn't have 6%, you don't give them the unemployment insurance.

We are talking about adding LIHEAP, adding infrastructure, adding state and local tax deductibility, state and local aid, making it a grab-bag of everybody's idea of who they want to take care of and who they want to attract political support from or say something that supports a group of people that they think are important to their constituency.

It will slow the package dramatically. I hope that we don't proceed that way. I have a lot of problems with the initial package. I do congratulate the White House and Speaker Pelosi and Congressman Boehner for putting together a package and recognizing a need. I have big reservations about whether it is the most useful package from the standpoint of a stimulus, but it is what the Senate requires to be a high watermark, and maybe we

should take the stimulus package and pass it and acknowledge the fact that we've done something.

The biggest impact of this event is very obvious, it is psychological. It is a big price to pay for a psychological event, \$150 billion that adds up to over \$200 billion for our children. But that is the big impact that the American people and the world can see that the Congress and President can work together to address what we see as an economic slowdown, even though what we're proposing probably won't have the effects that we hope it will have in the short term.

We should not aggravate the problem by throwing in other ideas, by expanding the rebate to high-income individuals, by extending the insurance to other areas where there is basically full employment. The House package becomes the high watermark. I never thought I would say that, but that's how it looks now from the Senate activity.

I wanted to make those points. You have to have an open discussion about what is going on and expedited activity, and I don't want to slow it down, but I want to make the point if we throw baggage on the train, we will probably have thrown the train in the wrong direction. I appreciate the courtesy of the floor.